

Message Text

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20

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 DRC-01 PA-03 PRS-01 USIA-15 /171 W

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R 100347Z SEP 73

FM AMCONSUL HONG KONG

TO TREAS DEPT WASHDC

SECSTATE WASHDC 8115

INFO AMEMBASSY BONN

AMEMBASSY CANBERRA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMEMBASSY LONDON

USMISSION OECD PARIS UNN

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: EFIN, HK

SUBJECT: EXTENSION OF STERLING AGREEMENTS

REF: LONDON 10245

1. MAIN HONG KONG REACTION AFTER UK ANNOUNCEMENT WAS SMALL SENSE OF RELIEF COMBINED WITH SHARP DISAPPOINTMENT THAT ACCEPTANCE OF GUARANTEE EXTENSION WOULD KEEP HONG KONG LOCKED INTO ITS VERY HIGH 89 PERCENT MINIMUM STERLING PROPORTION. FINANCIAL SECRETARY, IN INFORMAL AIRPORT PRESS INTERVIEW, HINTED THAT HONG KONG WOULD NOT ACCEPT UNLESS SOME FURTHER DIVERSIFICATION POSSIBLE. SIMILAR STATEMENT MADE PRIVATELY BY EXCHANGE CONTROLLER TO TREASURY
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REPRESENTATIVE.

2. HKG IS UNDER HEAVY PRESSURE FROM BUSINESS COMMUNITY TO BARGAIN VERY HARD. HK BANKERS AND BUSINESSMEN HAVE RESENTED UK'S FAILURE BEGIN NEGOTIATIONS FOR AN EXTENSION EARLIER. CHAIRMAN OF MAJOR BANK (HONG KONG AND SHANGHAI) CHARACTERIZED UK PROPOSAL TO PRESS, AS "ON THE FACE OF IT, A PRETTY MISERABLE BOX OR TRICKS." BANKS WOULD HAVE MUCH PREFERRED TO HAVE GUARANTEE IN TERMS OF THE HONG KONG DOLLAR THAN US DOLLAR SO THAT THEIR DEPOSIT LIABILITIES IN THIER OWN CURRENCY WOULD BE LINKED DIRECTLY TO THEIR STERLING ASSETS. TO PROTECT THEMSELVES AGAINST STERLING DEPRECIATION BANKS HAVE BEEN SELLING STERLING FORWARD FOR PAST TWO MONTHS AND MAY CONTINUE TO DO SO.

3. INTENSIVE CONSULTATIONS WITH BANKS, WHO OWN ALMOST HALF THE STERLING RESERVES, HAVE BEGUN AND IT WILL PROBABLY BE FEW MORE DAYS BEFORE HK RESPONDS.
OSBORN

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